B535'0-2

The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

MONDAY, APRIL 14, 1986 VOLUME XXIII, NUMBER 9

The Economic Outlook In Europe . . .

After years of lackluster growth, lofty energy costs, slumping currencies and tight fiscal and monetary policies, the gauges of European economic health have brightened considerably in recent months. Better-coordinated economic policies have lowered inflation rates, improved trade performance, reduced budget deficits and allowed interest rates to fall. What is more, these policies have narrowed the differentials in economic performance among the strong and weak countries. Converging rates of growth, inflation and interest, in turn, have produced more exchange rate stability within the European Economic Community (E.E.C.) than has been seen in the past. Now, with these essential ingredients in place, Europe finds itself in a good position to exploit fully the growth opportunities offered by sharply falling oil prices and interest rates—good news for not only Europe's 19 million unemployed, but the global economy as well.

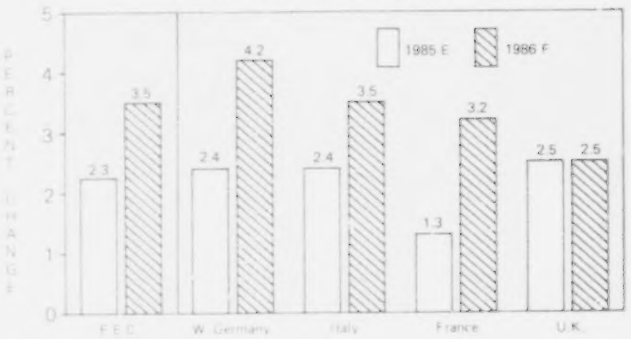
Reflecting the widespread reluctance to loosen fiscal policies for fear of reigniting inflation, Europe needed a spark to get itself back on the growth track. Substantially lower oil costs, magnified in terms of local currencies by the weaker external value of the dollar since oil is priced in dollars, should be that spark. If oil prices remain below $15 per barrel, for example, Western Europe could save nearly $50 billion on its imported oil bill this year, almost half the money spent on such purchases in 1985. By enhancing consumer purchasing power, the slide in energy costs will give Europe's private sector the equivalent of a tax cut without enlarging government budget deficits.

What is more, the dollar's descent over the past year will supplement the benefits of lower oil prices. Take, for example, Germany. The slide in dollar oil prices, combined with the nearly 30 percent appreciation of the Deutschemark relative to the dollar over the past year, have lowered the local currency cost of oil per barrel by some 70 percent. A similar case can be made for other oil-importing European countries whose currencies have recently appreciated against the dollar. In addition, because central banks no longer have to maintain high interest rates to support their currencies against a strong dollar, interest rates should fall further, fostering economic growth.

. . . Finally Begins To Brighten . . .

Although Europe's export competitiveness may be hurt by the drop in the dollar's value, the long-awaited pickup in domestic consumption and investment should more than offset any decline in the external stimulus. For one thing, falling oil prices and interest rates have sent European stock markets surging. The wealth effect of higher share prices, combined with lower inflation rates, should give a boost to consumer spending this year. For another, lower energy costs and the weaker dollar will decrease the costs of production, increasing industrial profitability—one of the necessary preconditions for more robust capital spending. According to recent surveys, European businesses intend to increase plant and equipment outlays by some ten percent this year after adjustment for inflation, versus about 1½ percent in the U.S. With domestic spending supplementing the export sector, growth throughout the E.E.C. could hit 3½ percent this year, or nearly double the average annual rate of rise posted during the immediately preceding three years (see chart).

REAL GNP GROWTH: TOTAL EUROPE AND SELECTED EUROPEAN COUNTRIES



Although opinion is divided as to whether Europe's expansion will outpace that of the U.S. in 1986, the continent's ability to share the role of locomotive for world growth can only have positive ramifications for the global economy. The worldwide economic

Copyright 1986
Manufacturers Hanover
270 Park Avenue, New York, N.Y. 10017

recovery will be more sustainable if it does not depend upon the performance of any one country. Converging economic growth rates, moreover, will help alleviate some of the present imbalances and distortions in world trade.

A rebound in both European and world trade growth would be a welcome tonic for the global economy in general, and hard-pressed exporters in both Latin America and the United States in particular. Take, for example, Latin America. Whereas Latin American exports to Europe have been trending fairly downward since the mid-1970s for several years prior to the onset of Latin's 1981-82 recession, they have since rebounded. By 1984, the value of such exports to the E.E.C. was the only six percent below its 1980 peak. What is more, whereas industrial Europe had been absorbing more than one fifth of Latin America's exports in the late 1970s, it currently takes in the neighborhood of one sixth.

. . . Boosting Global Business Prospects

Who picked up the slack? By and large, the United States, whose share of Latin American global exports rose from about 35 percent in the late 1970s to 45 percent in 1985. This suggests that any increase in European growth and expansion of its markets should not only enhance Latin American export earnings, but also reduce the vulnerability of such earnings to swings in U.S. economic performance.

Selected Federal Reserve Data

	Week Ending 4/9/86	‡ Change	
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	184,947	+ .111	+14,434
Loans to Depository Inst.	957	+ .157	− 911
Float	691	− .375	− 122
Total Reserve Bank Credit	201,429	− .309	+16,808
Treasury Deposits with Federal Reserve Banks	3,365	+ .439	− 824
Currency in Circulation	194,369	+ 1,138	+13,055
Gov't's held for Foreign Acct. by F.R. Banks (End-of-Week)	142,214	+ 2,216	+26,943
	4/9/86		
Member Bank Reserves:			
Total Reserves Held	46,695	+ 1,011	+ 5,895
Excess (Deficiency)	621	− .374	+ .064
Net Free Reserves	323	− .438	+ .246
Monetary Aggregates †			
M1 (3/31/86)	640.1	+ 8.0‡	+ 11.7‡
M2 (March '86)	2,589.9	+ 3.8	+ 6.6
M3 (March '86)	3,255.6	+ 7.2	+ 7.0
Domestic Nonfinancial Debt (4th Q'85)	6,867.8	+ 19.2	+ 14.7

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 4/11/86			
‡ U.S. Treasury Bills	6.17%	6.26%	6.30%
* Federal Agencies	6.42	6.47	6.59
* Municipal Notes–High Grade (46% Taxable Equivalent)	7.78	7.78	8.15
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.52	6.52	6.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5–14 days	6.65%	May	6.60%
15–29 days	6.65	Jun.	6.40
30–59 days	6.55	Jul.	6.40
60–89 days	6.55	Aug.	6.35
90–179 days	6.45	Sep.	6.30
180–239 days	6.30	Oct.	6.25
240–270 days	6.30		

‡ Industrial Paper–Prime			
30–89 days	6.56%	†Federal Funds	
90–120 days	6.38	Effective Rate	6.78%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

	Latest Period	Preceding Period	Year Ago Period
Gross National Product (Current Dollars)*	4Q'85	$ 4,017	$ 3,853
Gross National Product (1982 Dollars)*	4Q'85	$ 3,584	$ 3,516
Percent Change, Annual Rate	4Q'85	3.0	0.6
Change in Consumer Prices*	Feb. '86	3.6%	3.6%
Change in Producer Prices*	Mar. '86	− 19.2%	0.0%
Civilian Employment (Thousands of Persons) †	Mar. '86	108,561	106,951
Unemployment as % of Civilian Labor Force †	Mar. '86	7.3%	7.3%
Personal Income*	Feb. '86	$ 3,387	$ 3,247
Leading Indicators Composite Index (1967=100) †	Feb. '86	174.1r	167.4
Industrial Production Index (1977=100) †	Mar. '86	126.5	123.7
Net Change in Consumer Installment Credit †	Feb. '86	$ 5.62	$ 7.22
U.S. Merchandise Trade Balance †	Feb. '86	− $ 14.42	− $ 11.45
Plant and Equipment Expenditures*	1Q'86	$388.98(a)	$371.16
Private Housing Starts (Thousands of Units)*	Feb. '86	2,056	1,632
New Construction Expenditures*	Feb. '86	$ 356.1r	$ 334.3
Total Business Inventories †	Jan. '86	$ 584.0	$ 575.0
Total Business Sales †	Jan. '86	$ 435.0	$ 417.4

*Seasonally adjusted annual rate. †Seasonally adjusted. r=Newly revised figure. r=Revised. a=Anticipated.

So, too, growth in Europe is essential if U.S. manufacturers are to be able to take advantage of the decline in the dollar and narrow the existing 12 digit trade deficit. U.S. sales to Europe are no higher today than at the start of this decade, and the U.S. trade balance with the region has not surprisingly deteriorated sharply. Between 1981 and 1985 the U.S. trade balance with Western Europe shifted from a surplus of $13's billion to a deficit of $23 billion—a $36's billion adverse swing which by itself accounted for more than one third of the overall widening in the U.S. trade deficit between 1981 and 1985.

out the region—which remain firmly riveted in double digit territory in most countries. But perhaps even more important, it could produce the environment necessary for making the required changes both in labor laws and social programs if Europe's most intractable problem is to be more permanently overcome. European laws, for example, make it difficult for companies to lay off workers when times are bad, making employers reluctant to hire even when business is booming. Moreover, generous unemployment payments decrease the incentive for the jobless to seek work. Given these rigidities will be slow to dissolve, what better time to meet them head-on than when economies are growing?

M

Short Term Paper Outstanding

		Change Since	
	Latest	Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/26/86)	162,062	94	+ 4,144
New York City (4/2/86)	35,933	724	+ 1,960
Commercial Paper (4/2/86)	389,411	+ 309	+50,629

Bank Loans

Commercial and Industrial Loans

		Change Since	
	Latest	Week Ago	Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (3/26/86)	253,918	– 1,815	+ 1,580
New York City (4/2/86)	58,975	+ 1,340	– 3,013

Total Loans and Leases Gross Adjusted

		Change Since	
	Latest	Week Ago	Year Ago
Nationwide (3/26/86)	738,064	– 5,584	+ 64,417
New York City (4/2/86)	160,195	+ 411	+ 14,807

Financial Markets

	Friday 4/11/86		Week Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.13%	38	– 2.17
180-Day Bills†	6.23	24	– 2.44
Longest Bills†	6.72	25	– 2.79
Recent Issues:			
7¼s 3/31/88	6.82	25	
7¼s 3/31/90	6.97	25	
8⅞s 2/15/96	7.27	18	
9¼s 2/15/16	7.36	19	
Municipals:			
Bond Buyer–20 Bond Index* (4/10/86)	7.25%	+ 10	2.14
Blue List Total ($ Million)	$2,209	+$ 275	+ $ 920
30-Day Visible Supply ($ Million)	$3,492	+$1,267	+ $ 685
Total	$5,693	+$1,542	+ $1,605
Corporates:			
Moody's Aa Composite (4/10/86)	9.19%	+ 05	3.62
30-Day Visible Supply ($ Million)	$2,300	-$3,915	+ $1,450
Stocks:			
Dow-Jones Averages:			
Industrials	1,708.19	+ 50.96	+ 524.50
Transportation	700.08	+ 6.74	– 187.85
Utilities	166.13	+ 1.64	+ 32.31
65 Stocks	608.48	+ 14.42	+ 183.35
N.Y.S.E. Composite Index	139.22	+ 3.93	+ 31.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	151,560	+ 3,052	+ 58,156

* 46% Taxable equivalent 13.43%

† Bond equivalent.

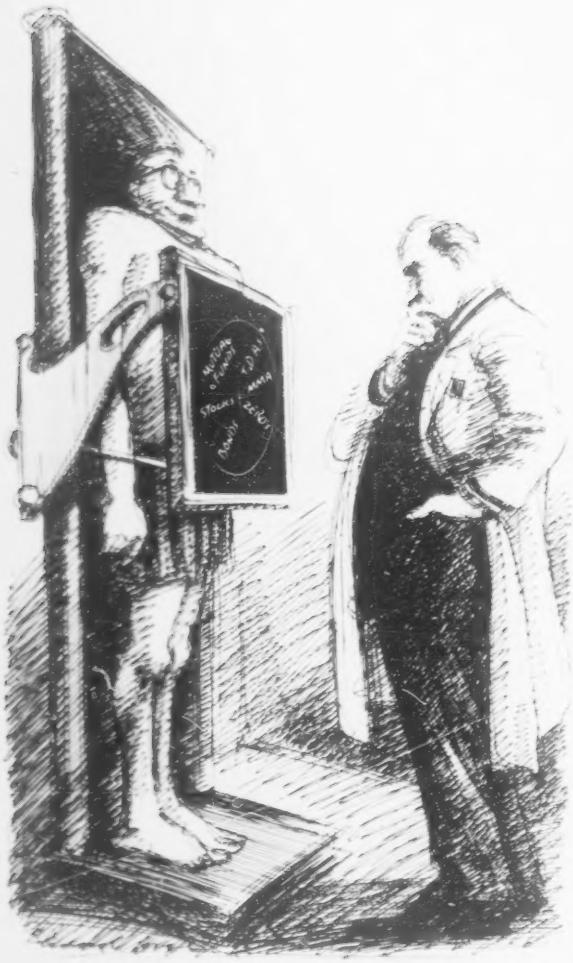
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/11/86	Week Ago
Overnight	6.81%	7.19%
1 month	6.81	7.31
3 month	6.69	7.19
6 month	6.69	7.06
1 year	6.75	7.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.55%	7.86%
Long Term (7 to 15 yrs.)	8.14	8.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/11/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02141	46.71
Canada	.7219	1.3853
Denmark	.1165	8.5850
France	.1363	7.3350
Germany	.4342	2.3033
Italy	.0006325	1581.00
Japan	.005610	178.25
Mexico	.002020	495.00
Netherlands	.3857	2.5930
Switzerland	.5173	1.9333
U.K.	1.4765	.6773

How healthy is your IRA?



An IRA doesn't grow big and strong all by itself.

It needs a balanced diet.

For resistance to the chill winds of inflation and an unpredictable market, an IRA portfolio should include more than one type of investment.

So Manufacturers Hanover Trust offers time deposits, a money market account, two no-load mutual funds, stocks, bonds, and zero coupon treasuries.

It needs good reflexes.

To take advantage of unexpected opportunities (like a surge in the stock market), IRA money must be able to move fast. So we offer same-day telephone transfers. And a toll-free IRA hotline to help you reach informed decisions quickly.

How healthy is your IRA? Take the IRA Challenge and find out.

Our IRA Challenge is a point-by-point checklist to compare your IRA with ours. It details all our special IRA services and investments, and you'll find it at any Manufacturers Hanover branch. Or if you just want more information, call us at **1-800-MHT-BANK.**

Once you take our challenge, we think you'll move your IRA to our bank.

For its health.

We realize your potential.

MANUFACTURERS HANOVER

The Financial Source Worldwide

The Manufacturers Hanover
Financial Digest

Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00208000006990 C 939 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014